



February 7, 2000

Slice Comments

[Bonneville Power Administration](#)

PO Box 12999

Portland, OR 97232

**Re:** [Amended Slice Comments](#)

Dear Bonneville Power Administration:

We appreciate the opportunity to comment on issues regarding Slice policy issues. We also appreciate Bonneville's willingness to hold open the comment period so that we could meet with Bonneville managers prior to writing these comments. Our discussions were exceptionally frank and useful and we hope these comments are useful as well. They are organized around four major topics: Amount, Duration, Slice is an experiment, and Off-Ramps and On-Ramps.

#### 1. **Amount**

Washington believes that BPA should be cautious about placing any limits on the amount of power that can be sold as Slice. To the extent that Slice purchases increase the value of electricity sold to ratepayers of consumer owned utilities, we believe that consumer owned utilities should have the opportunity to take the fullest advantage of anything that enables them to serve their own ratepayers better. Given that BPA has designed the Slice so that no costs are shifted from purchasers of Slice to non-purchasers of Slice, we believe that there are no losers regardless of how much power is sold as Slice.

Having said this, we believe that for various reasons--improvement in the "partial requirements" product, further understanding of the implications of making a slice purchase, desire to have a well-diversified resource portfolio--total sales of slice will fall within a politically acceptable limit. Therefore, we do not believe that Bonneville needs to impose a cap on the amount of subscription power sold as Slice. We believe that informed customer decisions will, in this case, work out for the best.

#### 2. **Duration**

From the start, BPA has stated Slice contracts would have to be for at least ten years. We understand that in order for customers and BPA to make this work, there needs to be a long term commitment so that neither will be adversely affected by single low- or high-water years and can structure their participation to reflect long-term averages and not short-term fluctuations.

We see long term benefits to the region in such an arrangement. As the Comprehensive Review concluded, to the extent that customers in the region demonstrate a long term commitment to Bonneville, interests outside of the region will be assured of Bonneville's ability to pay its bills and meet its environmental obligations.

From Washington's perspective, longer-term contracts are better since we think that the agreement would be beneficial for both BPA and its customers and in the long run for the citizens of the state. Since we believe that BPA will be the long term low cost provider of electricity, we think that it is better for Washington consumers who have access to BPA power to lock in those low costs for as long as possible. We also believe that longer-term contracts will further demonstrate the willingness of regional customers to pay all of Bonneville's costs, thus helping to keep the benefits of BPA in the region.

#### 3. **Slice is an Experiment**

We see Slice as an experiment in how BPA might do business in the future. Therefore it is important that BPA get the product right and have a diversity of customers to sell it to.

Among the many alternatives being put forward for the future governance of federal power resources is the concept of some greater role in the management of federal power marketing by regional entities. Although a sale of Slice is only a very small first step toward such a change, it can provide an important test of the region's capacity to manage power resources at a much more complex level. Therefore, BPA needs to sell enough Slice to a wide diversity of customers in order to see how well this concept works. While we cannot calculate the exact numbers, clearly large municipal utilities that have large amounts of their own generation should be able to buy a large enough Slice from Bonneville to fully test whether this kind of product will work in the long run.

There are similar issues regarding small, full-requirements customers who may want to buy Slices. These small utilities face risks not faced by larger utilities since they are less likely to have the flexibility, experience and cash-flow to manage the large fluctuations in power that they must accept over the term of the Slice contract. We encourage BPA to test a number of approaches with small utilities (or utility consortia) to see which works best. These approaches might include partnerships between full-requirement utilities and larger utilities that have generation.

#### 4. **Off Ramps and On-Ramps**

Bonneville made it clear from its first Slice Principles that there would be no "off-ramps" for slice contracts. We agree with this principle since the product would not be possible if customers could walk away if faced with short-term hardships. The product is designed for long term contracts among parties who can manage year to year (and day-to-day) changes in how much power they receive. However, the principles do not address "on-ramps," that is the opportunity for utilities that eschew participation at this time but want to buy Slice when their initial contract for the next rate period expires. We believe that there are several good reasons to allow "on-ramps."

First, if customers know that they can buy Slice later (or increase the amount they have contracted for initially) they may very well buy less of a Slice during this rate period since they will know that if it works out they will have an opportunity to buy more later. Similarly, if it does not work out as they hoped, they would have limited their exposure to an undesirable product.

Second, we believe that a number of utilities that would prefer to be long term customers of Bonneville feel that they are not ready to buy Slice because they lack the managerial or financial infrastructure to accommodate its demands. However, many of them would plan to develop that capability--either internally or through alliances with others in a similar situation--and would welcome the opportunity to participate later. These utilities may also want to see how the Slice actually works in practice before they sign up.

Third, allowing this degree of flexibility will help Bonneville address some of the concerns about too much of the system being locked up for too long a period of time. If we are correct that allowing on-ramps will depress initial demand for Slice, then Bonneville can continue to perfect the Slice product and the region can discuss the future of federal power marketing and river governance without having any options foreclosed.

We believe that Bonneville should be commended for its openness and responsiveness in developing the Slice product. We have offered these comments in that spirit and trust that they will be useful to you as you make your final decisions. If you would like to discuss any of these issues further, please contact Howard Schwartz, of the CTED Energy Policy Group at (360) 956-2009.

Sincerely,

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